To Make Matters Worse:
Why it Costs More to be Poor

The simple definition of poor means not having enough money to cover the cost of living. But the reality is not that simple. The cost of living day to day is actually higher for the poor – a reality that makes matters worse.

As more people transition from welfare to work, a job is a first step toward independence, but it's still a long walk to the goal. A low income restricts access and limits choices so that families end up paying more for basic living expenses than families with more income.

Why does it cost more to be poor? Consider the following:

✓ **Transportation.** To get to work, a low-income person often must obtain a personal car, especially in rural areas that lack public transportation. Without a solid credit history, a low-wage earner may be forced to finance a car with a "sub-prime" lender, which charges a much higher rate – sometimes double or triple the prime rate. That can cost thousands of dollars extra in finance charges. Low-wage earners also are typically limited to cheaper and less efficient cars, which cost more to operate in fuel and repairs. In many low-income metropolitan neighborhoods, automobile insurance is more expensive – as much as $1,000 more a year.

✓ **Household goods.** Low-income areas are often economically isolated. There is less business development, therefore less retail competition. The only choices in shopping for groceries, clothing, medicine, furniture and other household necessities may be smaller stores that lack the economy of scale to offer discount prices. Some cash-strapped consumers resort to rent-to-own businesses to buy furniture, appliances and electronics for lower monthly payments, but in the long run they pay as much as two to three times more than cash buyers do.

✓ **Housing.** Affordable rental housing is in short supply, which often means low-income families pay considerably more than the recommended 30 percent of income on housing. Those who want to buy a home often wind up, because of a poor credit history or a lack of lending agencies in the area, with a mortgage from a "sub-prime" lender that charges twice the rate of a prime loan. The higher interest can add as much as $500 to the monthly mortgage payment. In rural areas, the poor often opt for manufactured housing because it's initially less expensive. However, a mobile home costs more to finance because it's personal property, and, unlike a house, it depreciates in value. Furthermore, the cost of homeowner's insurance in lower-income neighborhoods can be as much as $300 more than higher-income neighborhoods.

✓ **Health care.** Only 26 percent of people earning $25,000 a year or less have health insurance paid by employers, compared with 83 percent of people earning $75,000 or more, according to the U.S. Census Bureau. For low-income families, that means more out-of-pocket expenses for health care. Many are forced to choose between filling a prescription or a sack of groceries. Delayed medical care typically results in worsened health conditions, which are even more expensive to treat.

✓ **Child care.** The working poor are often single parents who must arrange for care of their children. Nationally, the cost averages $4,000-$6,000 per year, which is difficult to absorb into a modest budget. As a disproportionate bite of a low income, it can squeeze out other necessities.

✓ **Financial services.** Poor neighborhoods and rural areas often lack mainstream financial institutions. As a result, the areas are targets for predatory financial industries, such as check-cashing outlets and payday lenders, which charge high fees for the convenience of quick cash and credit. Low-wage workers may spend 2-3 percent of their pay just to obtain cash and can pay up to 470 percent annual percentage rates if they fail to repay loans due on the borrower's payday.

The higher fees, finance charges and other costs add up to hundreds or thousands of dollars spent by low-income families every year. Unfortunately, low-income families often lack the skills and resources to be savvy consumers. They are less likely to have access to the Internet, newspapers and other resources to comparison shop and learn good money management in order to get the most for their dollar.

At the end of the day, it costs more to be poor.

Sources:
"Strengthening Rural Families: The High Cost of Being Poor," The Annie E. Casey Foundation
"From Poverty, Opportunity," The Brookings Institution

Some Facts About Poverty in the United States

- The official poverty rate in 2005 was 12.6 percent.
- There were 37 million people in poverty (12.6 percent) in 2005. Both the number and rate were statistically unchanged from 2004 and marked the end of four consecutive years of increases in the poverty rate (2001-2004)
- There were 7.7 million families in poverty in 2005, statistically unchanged from 2004. The poverty rate for families declined from 10.2 percent in 2004 to 9.9 percent in 2005. The poverty rate and the number living in poverty both declined for married-couple families (5.1 percent and 2.9 million in 2005, down from 5.5 percent and 3.2 million in 2004). However, the poverty rate and number in poverty showed no statistical change between 2004 and 2005 for female-householder-with-no-husband-present families (28.7 percent and 4.0 million) and for male-householder-with-no-wife-present families (13.0 percent and 669,000).
- As defined by the Office of Management and Budget and updated for inflation using the Consumer Price Index, the average poverty threshold for a family of four in 2005 was \$19,971; for a family of three, \$15,577; for a family of two, \$12,755; and for unrelated individuals, \$9,973.
- The poverty rate in 2005 for children under 18 (17.6 percent) remained higher than that of 18-to-64 year olds (11.1 percent) and that of people 65 and older (10.1 percent). For all three groups, the rate was statistically unchanged from 2004.
- In 2005, the number in poverty remained statistically unchanged from 2004 for people under 18 and people 18 to 64 years old (12.9 million and 20.5 million, respectively).
- The number in poverty increased for seniors 65 and older – 3.6 million in 2005, up from 3.5 million in 2004.
- The number of people with health insurance coverage increased by 1.4 million to 247.3 million between 2004 and 2005, and the number without such coverage rose by 1.3 million to 46.6 million (from 15.6 percent in 2004 to 15.9 percent in 2005)
- Between 2004 and 2005, people covered by employment-based health insurance (174.8 million) declined from 59.8 percent to 59.5 percent.
- While the number of people covered by government health programs increased between 2004 and 2005, from 79.4 million to 80.2 million, the percentage of people covered by government health insurance remained at 27.3 percent. There was no statistical difference in the number or percentage of people covered by Medicaid (38.1 million and 13.0 percent, respectively) between 2004 and 2005.
- The proportion and number of uninsured children increased between 2004 and 2005, from 10.8 percent to 11.2 percent and from 7.9 million to 8.3 million, respectively.

- Real median earnings of males age 15 and older who worked full-time, year –round declined 1.8 percent between 2004 and 2005, to $41,386. Women with similar work experience saw their earnings decline by 1.3 percent, to $31,858. (The difference between the rates of decrease for men and women was not statistically significant.)

- In 2005, the poverty rates in the Northeast (11.3 percent) and the Midwest (11.4 percent) were not statistically different from each other. However, they were lower than the other two regions. Poverty rates for the South and the West were 14.0 percent and 12.6 percent, respectively. Both the poverty rate and the number in poverty remained stable in all regions between 2004 and 2005.

- Real median income of households rose in the Northeast (2.9 percent) and in the West (1.5 percent) between 2004 and 2005. Income remained statistically unchanged for the South and Midwest. (The difference between the percentage increases in the Northeast and West was not statistically significant.)

- The Northeast had the highest household income of all four regions ($50,882) in 2005, followed by the West ($50,002) and the Midwest ($45,950). Households in the South had the lowest median income ($42,138).

The families in the Community Action Poverty Simulation are real families with real problems. They are facing ...long-term unemployment ... low wage jobs ... limited job skills ... non energy efficient housing ... high utility bills ... housing that needs repairs ... unreliable transportation ...health problems without insurance ... deserted by a spouse ... drug problems ... limited or no assets ... no telephone ... lack of quality child care ... unaffordable medication ... incarcerated children/parents.

The Community Action Network wants people to gain a better understanding of what it is like to live without enough money to meet their basic needs. We want community leaders and the general public to be inspired to find solutions to poverty issues. We want all Americans to be engaged in ending poverty.

United in purpose, the Missouri Community Action Network will inspire and engage people to ensure that all families and communities thrive.

Contact Missouri Association for Community Action (MACA) at 573-634-2969 for additional information.

Source: U.S. Census Bureau

- In 2001, 32.9 million Americans were living at or below the federal poverty guidelines. This means 11.7 percent of the country's population are below the federal guidelines. 41% of these had incomes that were less than half the poverty guidelines. The poverty guidelines were developed four decades ago based on the cost of one item, food. The guidelines have only been updated to reflect inflation, and do not reflect the increasing amounts that families must spend on other necessities, such as housing. Thus, the Americans who fall below the poverty line are truly the poorest of the poor.

- There are an additional 12.5 million individuals with incomes just above the poverty level - 100 – 125% of poverty. Many of these families lack sufficient resources to adequately meet their basic needs. These two numbers equal more than 45.3 million individuals struggling to pay their bills. This is nearly three times the combined population of New York and Los Angeles.

- A study entitled *Hardships in America*, published by the Economic Policy Institute, provides a different measure. It measures "basic family budgets" indicating how much income people need to live in every metropolitan area in the country and in rural areas in each state. This study reports how much money it takes for families to live and work without public or private assistance.

- Housing and childcare are by far the greatest expenses for working families with children. Families with two children generally spend about half of their incomes on these two expenses.

- *Hardships in America* reported that the monthly cost of childcare for two children, a preschooler (full time) and a school age child (part-time) ranges from $459 in Mississippi to $1,066 in Minnesota.

- The difference in housing costs is even larger, with the average rent for a two-bedroom housing unit varying from a low of $274 per month in rural North Dakota to a high of $1,167 per month in San Francisco, CA.

- The average wage of someone moving from public assistance into the workforce is $7 / hour. This is over $1000 / year below the poverty line for a family of four.

- One-third of Americans still have incomes that are less than 200% of poverty.

- The move from public assistance to a paycheck does not mean an escape from poverty.

- In the United States, we tax people with very limited income. The state income tax threshold for single-parent families of three starts at $10,000. Levying an income tax on the poor lowers their disposable income and their ability to meet basic needs.

- As a family's income rises up to and beyond the poverty level, the combination of higher taxes and the loss of public assistance such as food stamps consume a significant share of its increased earning. In addition, the expenses of working, such as childcare and transportation, often absorb a large proportion of the earnings of low-income workers. Thus, as part of a larger strategy to "make work pay" for low-wage workers, it is particularly important that income taxes not be imposed on families whose earnings are below the poverty level.

- The average family with a household income between $10,000 and $25,000 has assets of $1,000, while the average family with an income of less than $10,000 has assets of $10.

- Families without savings face a major financial crisis if they experience the slightest setback. It could be a car needing repairs, an unexpected medical bill or a reduction in work hours that drives them to take drastic steps to survive. These families can be forced to take out small loans at exorbitant interest rates just to make it to the next paycheck.

- According to the U.S. Department of Labor, the number of unemployed persons in June 2003 was 9.4 million, or 6.4%.

- Even more distressing, the nation's job loss shows trends of acceleration. 913,000 jobs were lost between March and June 2003.

- Two million of those unemployed (nearly 25%) have been looking for work for 27 weeks or longer.

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